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## ROUND TABLE CONFERENCE ON MARKETING

### THE CHAIN STORE GROCER

BY ALFRED H. BECKMANN

The well-organized Chain Store Grocer has proven an evolution in merchandising, and developed an industry which today occupies a most important place in the distribution of food products and grocery specialties for the producer or manufacturer, and to the consumer.

The purpose of the National Chain Store Grocer's Association of the United States is to assist in elevating the industry; to oppose improper methods and illegitimate practices inimical to the right conduct of business that honest and open competition may prevail; to assist in the enactment and enforcement of federal and state Pure Food laws, which in their operation shall deal justly with the rights of consumers and the trade; to foster the adoption and enforcement throughout the United States of uniform laws upon commercial subjects; and, last but not least, to make possible a low cost to the consumer.

There are less than seventy-five responsible Chain Grocery Store organizations, operating not over fifty thousand chain stores, in the United States. There are some so-called buying exchanges and co-operative associations which in the main do not conduct their business as merchants, and tend to invite the innocent public's money without any stable foundation to produce legitimate returns. Most of these are short-lived because of their inability to function properly for the investor, for the producer or manufacturer, and to the consumer.

The development of the chain grocery industry is only in its infancy and has great possibilities under efficient and economic management, with which must necessarily be coupled proper service for the producer or manufacturer and low costs and good values to the consumer.

High-class merchandise, efficiency in service, quick turn-over and the cash and carry system, are the essential elements which tend to develop the chain grocery store industry and these elements prevail in the well-conducted chain grocery store organization.

When it is considered that the chain store grocery is of only recent origin, compared to other channels of distribution, it is not surprising that there are some interests which deplore the development and efficiency of the chain store grocer, yet when ANY avenue of distribution ceases to function economically for the producer or manufacturer and especially to the ultimate consumer, it retards its own progress and hastens the development of the other.

Chain grocery store organizations, properly conducted, perform the function of both wholesaler and retailer, though eliminating a considerable overhead expense, enabling the passing on of a low cost to the consumer.

The chain store grocer seldom stocks many various and conflicting brands of the same food product, but concentrates his efforts on one or two brands and keeps up a free and continuous movement on them, though always mindful of the consumer's demand.

In selling to responsible chain grocery store organizations, the manufacturer eliminates a considerable overhead expense, in the cost of traveling salesmen and so-called specialty salesmen. The average quantity purchased by responsible chain grocery store organizations is usually much larger than that purchased by so-called wholesale grocers or jobbers. The buying is done at the headquarters of the chain grocery store organization, without any sales expense on the part of the manufacturer or producer. Where chain store organizations operate in different sections of the country, they usually have warehouse facilities which enable them to assemble their supplies direct from the manufacturer and redistribute to the individual stores at a lesser cost than applies otherwise, considering freight and cartage.

The consumer can and does obtain a low cost through the ability of the chain store to buy direct in larger quantities. The chain store grocer turns his stock over from twelve to twenty-five times per annum, sells for cash, makes no deliveries, and the consumer is saved an average of 15 per cent in buying, due to the efficiency of the home of the chain store organization.

Values compare most favorably, in that the chain store grocer cannot prosper unless he supplies the best of what the public demands, and carries such articles as the consumer calls for. Further, some chain grocery store organizations manufacture a great many of the products which they sell. Some of the larger ones can milk, bake bread, can tomatoes, peas, etc.; manufacture flavoring extracts, cocoa and chocolate, macaroni, spaghetti and noodles; grind spices, bottle vinegar and olives, manufacture ammonia, bluing and very many other articles necessary in the home, which does not apply to so-called wholesale grocers as they would not be assured of their outlet as is a large chain grocery store organization.

That the consumer receives the benefit of low costs in buying from the chain store is proven by reason of its many units; it is able to buy car lots where the individually owned grocery can only buy in small quantities, and by the further fact that there is scarcely a chain grocery store organization making a greater net profit than 3 per cent on its sales, while the so-called retail grocers claim—and it is so contended by them—that their gross margin must be 30 per cent to make any money, while the chain store grocer's average gross cost of conducting business is between  $13\frac{1}{4}$  per cent lowest and  $18\frac{1}{2}$  per cent highest.

The turnover in the chain store occurs much oftener than in the regular retail grocery store, therefore the goods are fresher; and the

rigid system of cleanliness keeps the store in perfect condition. The chain store has fostered the package idea, and the days of the outside display—such as the open mackerel tub, molasses barrel, loose crackers (all subject to exposure and germs) and the old-fashioned sawdust on the floor—are things of the past, especially for sanitary reasons.

One of the great advantages, as we see it, of the chain store today, is that the majority of them put a price tag on every article of merchandise they sell—the children are treated just the same as the grown people, there is no attempt to overcharge. Another fact is that customers having to carry their merchandise with them do not overbuy, and the chain store idea has more and more made a shopper of the housewife; she is glad to go from store to store, seeing where she can save a cent or two per pound on butter or three cents per dozen on eggs, or a cent or two on canned goods, etc. All this tends to economy, not only in her mode of living as far as the food and household articles are concerned, but we think develops in her an idea of economy which she practices in all other pursuits of her life.

The credit end of the ordinary retail grocer is, of course, an extravagance breeder, and encourages unnecessary and unwarranted buying, not only at the expense of the consumer but of the retailer as well, as the grocery bill generally is paid reluctantly if at all, and is largely the cause of the many failures of retail grocers.

Public appreciation of the chain grocery store is rapidly growing. Ten years ago it was estimated that chain stores in what is known as the Metropolitan District of New York did about 12½ per cent of the volume of business in their line, while today it is estimated at about 50 per cent. It has worked out an economic problem for the housewife; she no longer demands service, using the telephone for every order, however small, as she knows she is able to buy so much better in the chain stores for cash than she can from the ordinary retail grocery stores, and she is willing to forego the service and anticipates her wants. The chain store grocer has been able to pay his manager a living wage and is therefore attracting the better class of men. Their intelligence is being passed on to the consumer who in this way is taught the value of certain food products, either nationally advertised or manufactured or distributed by the chain stores.

The wholesale grocer serves as a merchandise and financial banker for the retailer and is indispensable to the retailer in some sections of the country, while the retailer serves the consumer, though at an added cost, where no chain store grocer operates.

It is estimated that there are about 4000 wholesale and 350,000 retail grocers in the United States. The 350,000 retail grocers are a number larger than is necessary to properly and economically serve

the consumer, and the up-to-date retailers have long ago realized this as proving a detriment to the industry.

Unfortunately, 75 per cent of the so-called retail grocers are not merchants; they don't know how to figure cost or sales expense, and as a rule don't know how to attract trade.

The average retailer, or rather the majority of small retailers—and they are in the majority—have as a rule very little capital when they enter business, and the wholesale grocer extends a line of credit in addition to furnishing the opening stock. Immediately that retailer is established, he is called upon by the salesmen of other wholesale grocers—a duplication of overhead expense and the wholesaler who is really entitled to all that retailer's business finds his sales diminishing, and is obliged to wait the pleasure of the retailer for payments on goods purchased, ranging from 30 to 60 days or even longer, further emphasizing the credit evil. Not less than 75 per cent of retail grocers require credit accommodation of the wholesale grocer, while the chain store grocer both buys and sells for cash.

The chain store grocer is entitled to the same or better recognition than is the so-called wholesaler or jobber, not only because he buys in larger quantities than does any other medium of distribution, but because he performs the function of both wholesaler and retailer, distributing his purchases from warehouse stocks direct to the consumer, through his retail stores wherever located.

Because the consumer pays cash and carries home his purchases, he is entitled to a lower cost than where a charge account and telephone and delivery service prevail; and the low cost should govern in all cases, including such products as are marked by manufacturers and producers at a certain price for re-sale, or an implied or so-called "suggested" resale price. No distributor should be compelled to obtain an unreasonable profit from the consumer when the distributor's operating cost warrants only a reasonable profit, and with which such distributor is satisfied.

Some manufacturers of so-called grocery specialties have expressed themselves as being fearful that eventually the chain store grocer organizations would exploit their own brands in competition with regular so-called factory brands, and that this, to some extent, was a reason for not encouraging the chain stores; but this idea is ridiculous and does not even bear consideration. First of all, the chain store grocer displays best for the manufacturer and proves of benefit to the consumer because he carries and sells what the consumer calls for; next, the supposed fear is totally unfounded for the unassailable reason that practically every wholesale grocer in the United States is a manufacturer in fact though not in name and exploits his private brands in competition with advertised manufacturer's brands—has

done so for very many years and the tendency is growing. He seeks to have the retail customer buy his private brands rather than the manufacturer's, though claims to be THE distributor for the manufacturer. As a rule the compensation from the manufacturer to the distributor does not adequately cover the cost of distribution under existing circumstances, and this latter is, to a great extent, the cause of the introduction of private brands, as the wholesaler saves a large overhead expense in advertising.

In summing up, I might say that the Chain Grocery Store represents large volume, rapid turn-over, low operating costs, good values, efficiency and judicious advertising. It is here to stay, because the public has been convinced that good values and low costs may be obtained when buying from well-organized chain grocery stores.

#### SUMMARY OF DISCUSSION BY THE CHAIRMAN

The discussion following Mr. Beckmann's paper on Chain Stores in the grocery trade brought out additional information about the chain store method of retailing, and also suggested several limitations to the future development of such stores.

In the first place, the saving to consumers through buying at chain stores was further analyzed. It was brought out that the gross margin obtained by a chain store grocer is about 20 per cent of sales, including the operation of both the retail store and the wholesale department. The corresponding cost of handling through the usual wholesale grocer and individual shop is about 30 per cent of sales. This means that the chain store method saves about 10 per cent to the consumer. On the average, an article that is sold by the individual retail shop for 10 cents can be sold by the chain store for 9 cents. It was suggested that possibly this saving is not sufficient to cause chain stores to become as important a factor in merchandising as many people seem to think.

It was also brought out that chain stores developed first in the East and have only been gradually spreading westward, and that they have been most successful where population is fairly dense. It was suggested that if a person had to spend time and money to travel to a chain store that the saving is not very substantial.

Mr. H. C. Marshall of the United States Bureau of Markets and Crop Estimates presented a few preliminary figures, based on an investigation that his Bureau has been making of the retail meat business for several months. In comparing chain meat stores with individual meat stores, he said that the average gross margin was less than one-half of one per cent smaller for the chain store than for the individual store. Each had a gross margin of about 19 per cent of sales. He said that the net profit of chain stores was less than  $3\frac{1}{2}$  per cent of sales, and that the chain store's cost of doing

business is nearly 2 per cent less than the cost of doing business in the individual store.

It was further brought out that the chain store method of doing business is not so applicable to the meat trade as it is to the dry grocery trade; first, because there is not the same opportunity for standardization; second, because the individual care of an owner of a business results in less waste than operation under a hired manager; and third, because the chain store system in the meat business cannot combine wholesaling and retailing as in the grocery trade, the wholesaling function in the meat trade being performed by the meat packer.

It was further brought out by various speakers that chain stores do not appear to have much if any advantage in handling perishable goods. Mr. C. C. Parlin, Manager of the Commercial Research Department of the Curtis Publishing Company, said that chain stores have an advantage in buying and in administration, and that they do their best when handling simple articles such as packaged and canned goods, but not so well in handling perishables. They handle nationally advertised lines. Individual retail stores must meet chain store competition by improved merchandising methods. When well managed, the individual store offers serious competition to the chain store, especially in handling perishables.

The savings made possible by chain stores were rather belittled by Professor B. H. Hibbard, of the University of Wisconsin, who said that the housewife does not have time to go shopping, and that the telephone is an instrument which saves the household both time and money. He also said that the cost of delivery, which the individual store normally has to include in its selling price, is a service which housewives want, and one which costs very little money in comparison with its value.

It was brought out by Professor Paul D. Converse, of the University of Pittsburgh, that chain stores turn their stock over much more rapidly than do individual stores, and that some of the self-service stores have a remarkably low cost of doing business.

It seemed to be the general feeling of the meeting, however, that in spite of the well recognized economies of chain store operation, the service rendered by the average individual store will continue to be demanded by a very large proportion of the housewives of the country, and that the desire for this service rather serves as a limitation of the field of the chain store, which is usually a "cash and carry" proposition and which usually handles a smaller variety of articles.

In spite of these limitations the various speakers did not question the importance of chain stores or the salutary effect that they are having in improving merchandising methods in general and in keeping prices lower than they otherwise would be.